

Fiscal Services Division

Legislative Services Agency

Fiscal Note

HF 2545 – Corrections Department Policy Bill (LSB 5214 HV)

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Fiscal Note Version – New

Requested by Representative Ray Zirkelbach

Description

House File 2545 creates a Central Warehouse Fund under the control of the Department of Corrections. Receipts will include payments from the DOC Institutions, including a handling fee. Expenditures will include purchases of food products and operating costs.

Background

- Currently, the Department of Human Services (DHS) operates a Central Distribution Center (CDC) as provided in Section 218.100, Code of Iowa. The CDC serves the DHS Institutions, the Iowa Veterans Home, some county jails, and the DOC Institutions. The DOC accounts for approximately 84.0% of total purchases made by the CDC. All users of the CDC pay the DHS an 8.5% handling fee to cover operating costs. The handling fee includes a 1.5% charge from the Department of Administrative Services.
- The CDC was expanded in FY 2003 using the Treasurer of State's lease-purchase program. Approximately \$172,000 remains outstanding on that loan. In FY 2004, roof repairs cost approximately \$220,000.
- The DOC is proposing to create its own warehouse at the Newton Correctional Facility, where the centralized canteen operation is located. This will permit using existing infrastructure such as inventory management, product purchasing, competitive bidding, and offender labor.
- Construction costs of the new warehouse are estimated to be approximately \$1.8 million. Lease-purchase payments would be made from the 8.5% handling fee that would no longer be paid to the DHS. Current law permits up to a 20-year payment schedule. The DOC is proposing to use a four-year payment schedule.
- Section 12.28(6), Code of Iowa, limits the maximum amount of principal to be financed by a State agency to \$1.0 million annually, unless a constitutional majority of each Chamber of the General Assembly and the Governor approve the lease-purchase agreement. This Section also prohibits financing a prison or prison-related facility without prior authorization of a constitutional majority of each Chamber of the General Assembly and the Governor.
- Current interest rates on lease-purchase agreements issued under Section 12.28, Code of Iowa, range from 4.2% to 5.2% depending on the length of term.

Assumptions

- Receipts to the CDC were approximately \$7.0 million for FY 2007. Of this amount, approximately \$5.9 million was generated by the DOC. This amount includes the 8.5% handling fee, or \$502,000 annually.
- The total food budget for the DOC is \$9.8 million in FY 2008. The DOC is not currently purchasing all its food from the CDC.
- It will take approximately one year to construct the DOC warehouse. The CDC will experience a significant reduction in operations once the DOC warehouse is operational.
- The DHS may choose to eliminate the CDC or operate at a reduced level once the DOC warehouse opens. Any close-out costs, if incurred, would be paid by the CDC revolving fund.

- The DHS and other agencies could purchase food products from existing State contracts or from the DOC. The DOC has not yet calculated what it would charge for a handling fee, but the goal is to be less than 8.5% of purchases.
- There are currently five full-time and three part-time staff employed by the CDC. These staff may remain employed by the CDC, transfer to the DOC warehouse, seek employment elsewhere in State government, retire, or be laid off.

Fiscal Impact

There is no direct impact to the State General Fund. The new DOC Warehouse will be self-supporting through receipts and fees, including payment of lease-purchase costs.

There is a potential for savings to the DOC in food operations. However, there is no method to calculate any potential savings. The DOC warehouse may become operational in late FY 2009. Any savings would be applied to lease-purchase payments for construction of the warehouse for at least the first four years. It is likely the lease-purchase term could exceed four years.

The potential maximum liability in vacation, sick leave, and unemployment benefits is estimated at \$48,000 for the DHS staff.

Sources

Department of Corrections
Office of the Treasurer of State
Department of Human Services
Department of Administrative Services

/s/ Holly M. Lyons

March 18, 2008

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
